

NEW YORK STOCK EXCHANGE



GEM Investment Club

Analysis of PayPal



By Mahaut & Guillaume



BUY – SELL – WAIT

The combination of the impressive latest results of PayPal and its promising recent growth initiatives lead us to trust the future of the company.

In addition, we believe it is a decisive moment to buy the PayPal stock : **BUY**

**Investment
summary**



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01

Company's
Overview

What does the company do ?



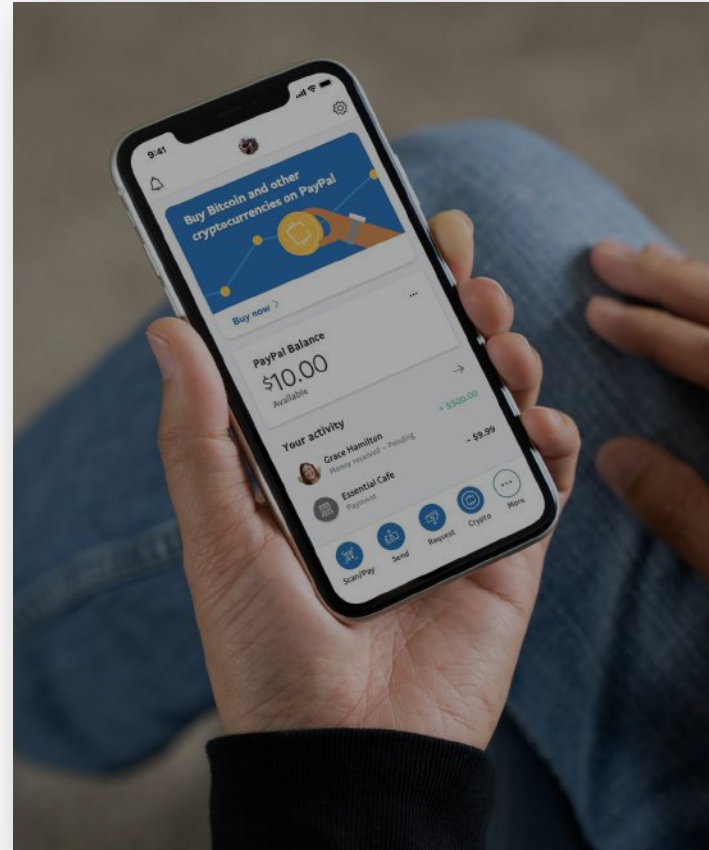
PayPal Holdings, Inc. is an American company operating an online payments system. The company operates as a payment processor for online vendors, auction sites, and many other commercial users, as well as at it offers a credit service to its users.

Ex-Confinity, the company was created in 1998 and stems from a merger with X.com, an online banking company founded by Elon Musk.

PayPal had its Initial Public Offering (IPO) in 2002, leading to a \$61 million valuation. Later that year, the company became a wholly owned subsidiary of eBay, valued at \$1.5 billion.

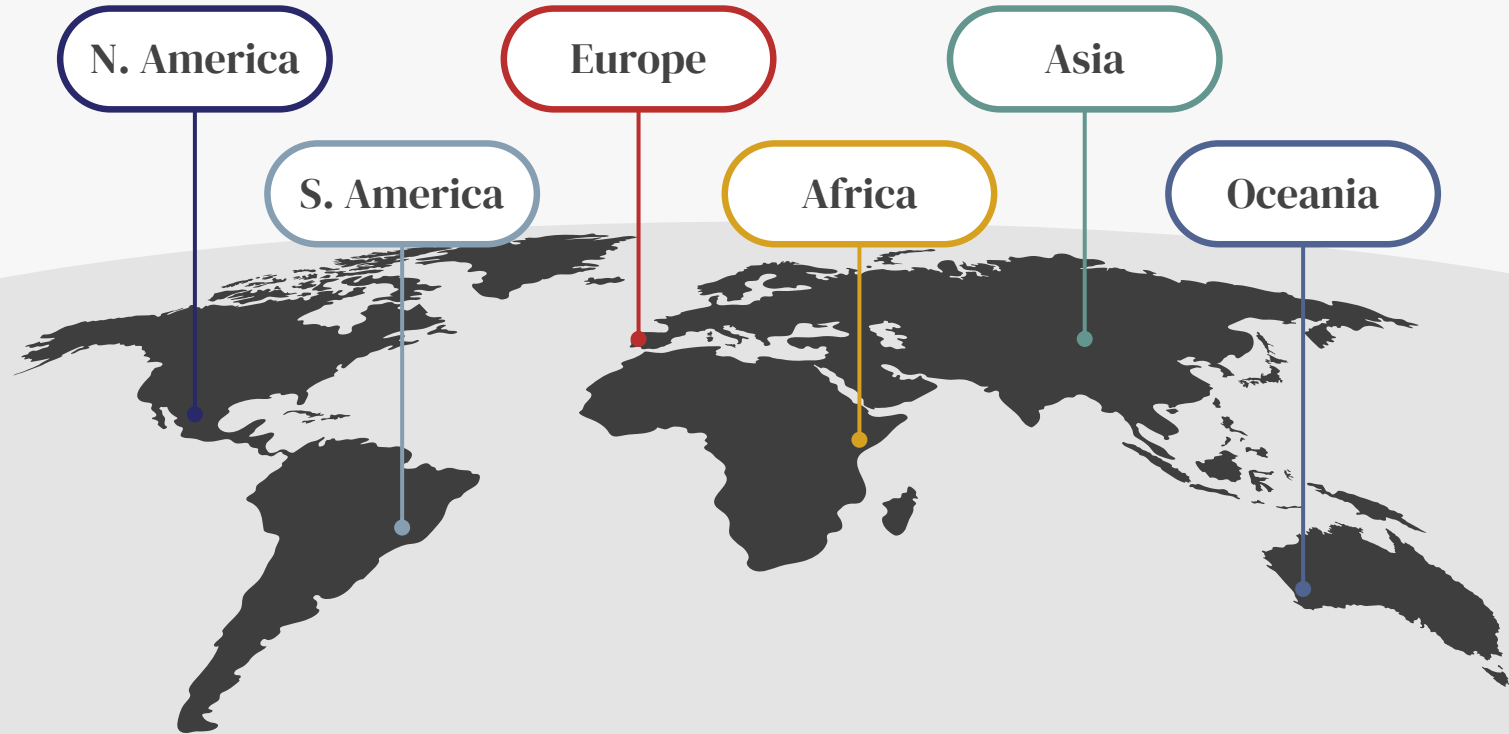
By 2010, PayPal had over 100 million active user accounts in **190 markets** through 25 different currencies.

In 2014, eBay spun off PayPal into a separate publicly traded company which is now ranked 204th on the 2019 Fortune 500 of the largest United States corporations by revenue.

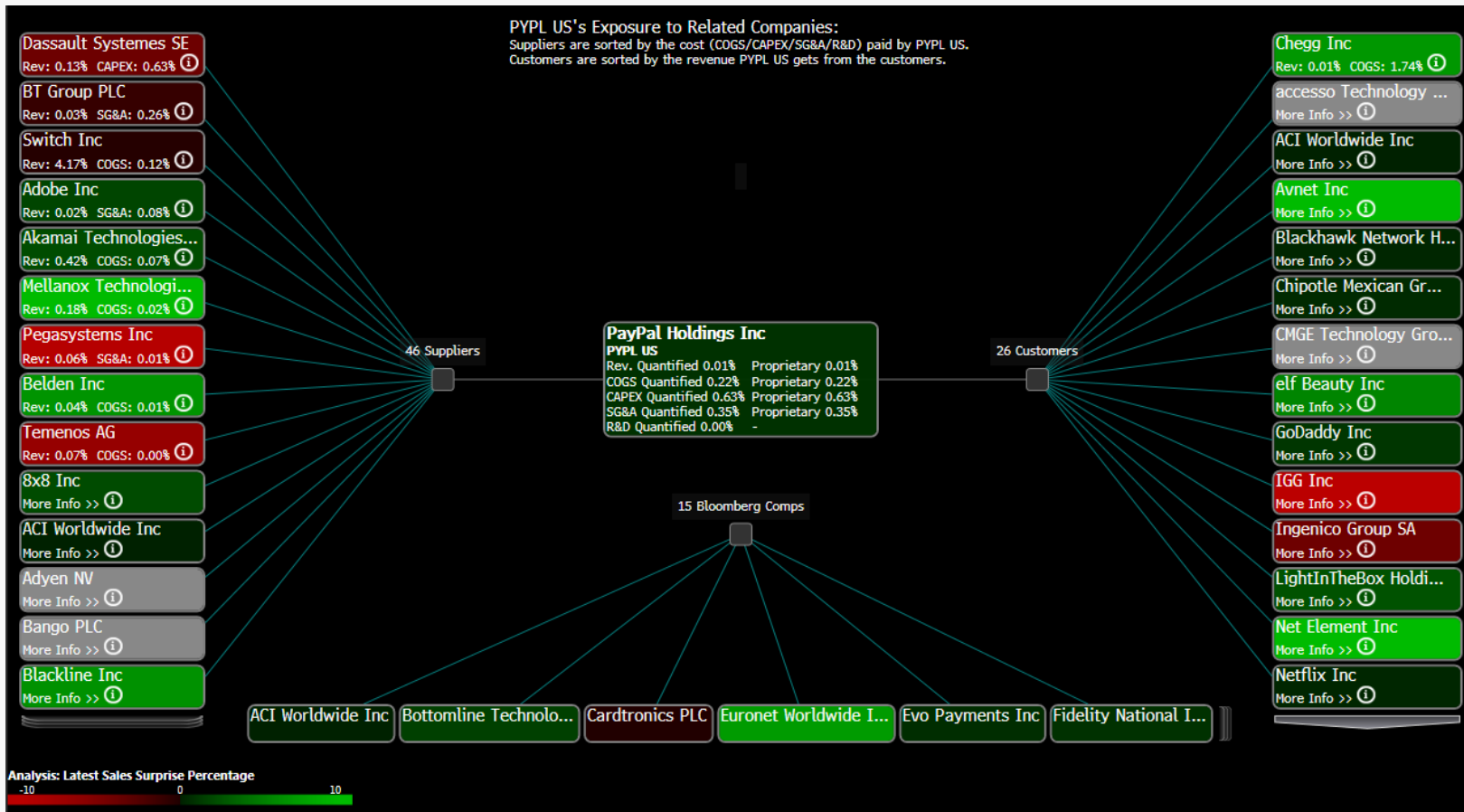




Where the company is doing business



Suppliers



Strategy



Improve its core operational capabilities

The company aims at improving its core operational capabilities.



Grow its value proportions for customers

PayPal focuses on growing its value proportion for customers by emphasizing on offering insight and risk management from its two-sided payments platforms



Improve key partnerships

The company intends to grow through strategic collaboration by establishing new partnerships to offer high quality experience to its customers, provide more choices, and obtain new customers.

Look for new areas of growth

PayPal seeks to expand its business through geographic expansion and strategic business acquisitions.





Strenghts



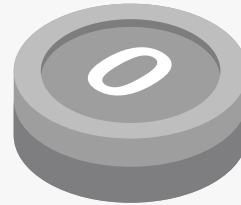
- **Business scale** : provides PayPal with an edge over its many competitors.
- **Financial performance** : growth of the company operating margin which may increase investor confidence.

Weaknesses



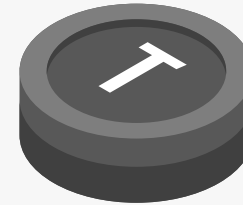
- **Cost efficiency** : the company reported a stressed cost efficiency ratio in 2020.

Opportunities



- **Strategic acquisitions** : various organic business expansion initiatives, notably in Asia-Pacific.
- **Cryptocurrency** : new service allows costumers to buy, hold and sell cryptocurrency directly from their account.

Threats



- Potential **regulatory changes** in the EU : GDPR.
- Exposure to **Hacking** and **Online Identity Theft**.
- Prolonged **low-interest-rate** environment : challenge for the models of financial institutions.



02 Top
Management

Board

John J. Donahoe II



**Chairman of the
Board**

Daniel H. Shulman



**President, CEO
& Director**

John D. Rainey Jr.



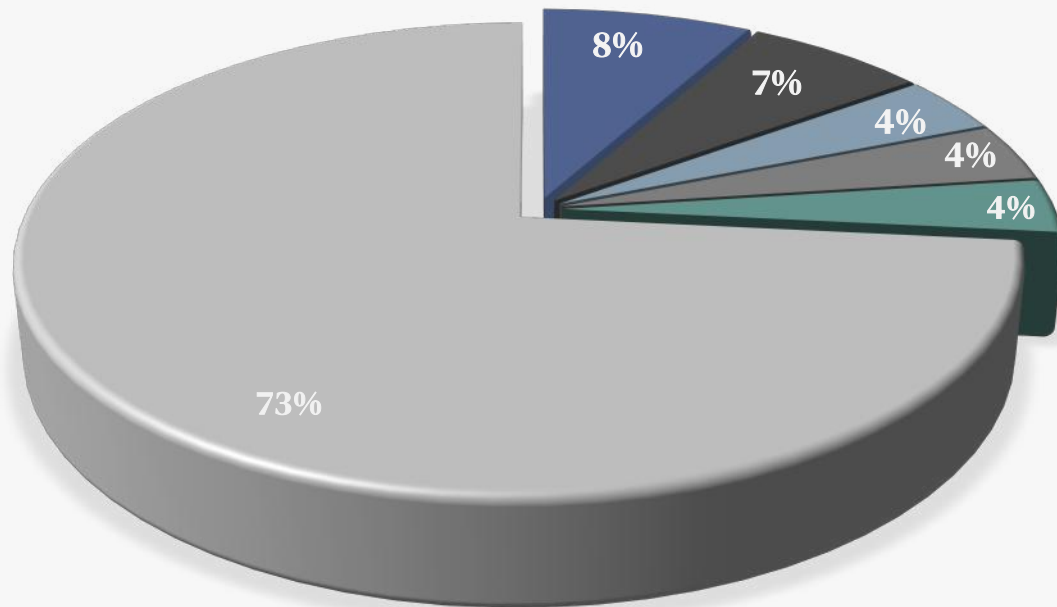
**CFO &
Executive VP**

Stockholders



% Ownership

- The Vanguard Group, Inc.
- BlackRock, Inc.
- State Street Global Advisors, Inc.
- FMR LLC
- T. Rowe Price Group, Inc.
- Others





03

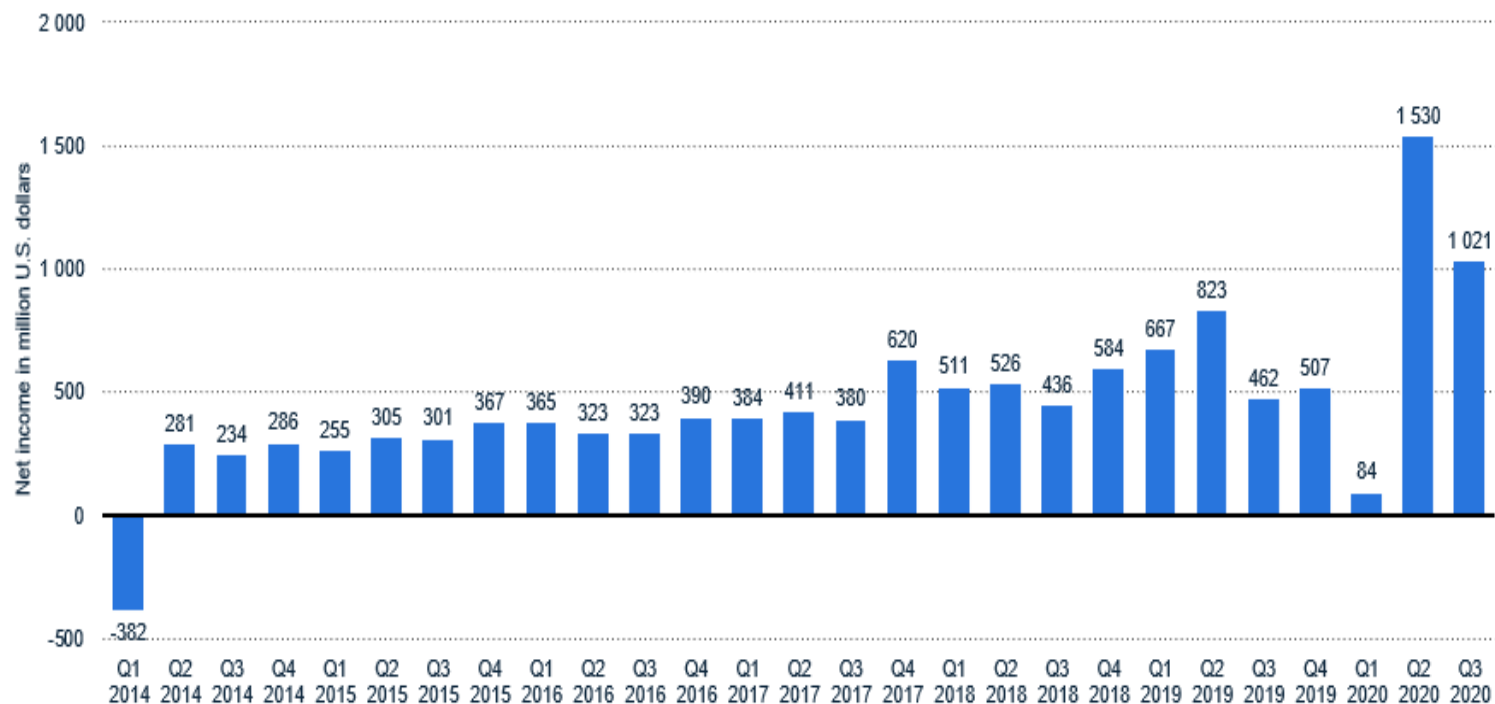
Market
Analysis

Analysis of the market



PayPal's net income from 1st quarter 2014 to 3rd quarter 2020 (in million U.S. dollars)

Quarterly net income PayPal 2014-2020

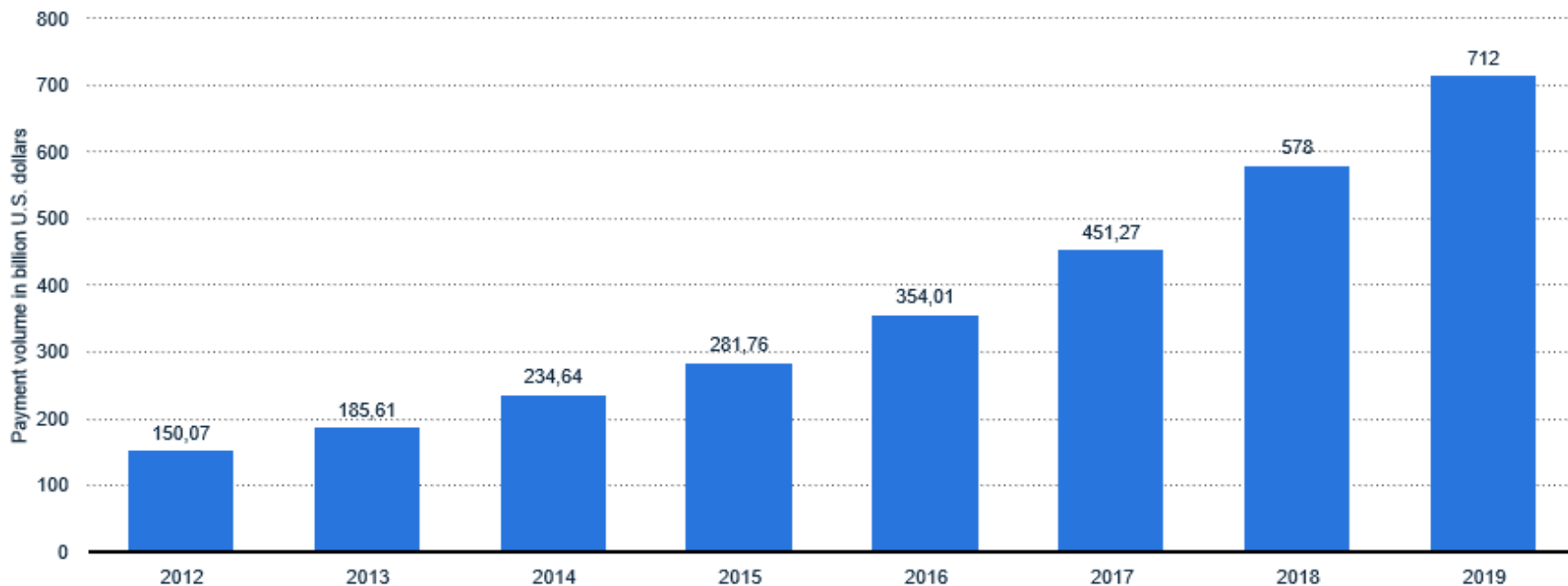


Analysis of the market



PayPal's annual payment volume from 2012 to 2019 (in billion U.S. dollars)

PayPal: annual payment volume 2012-2019

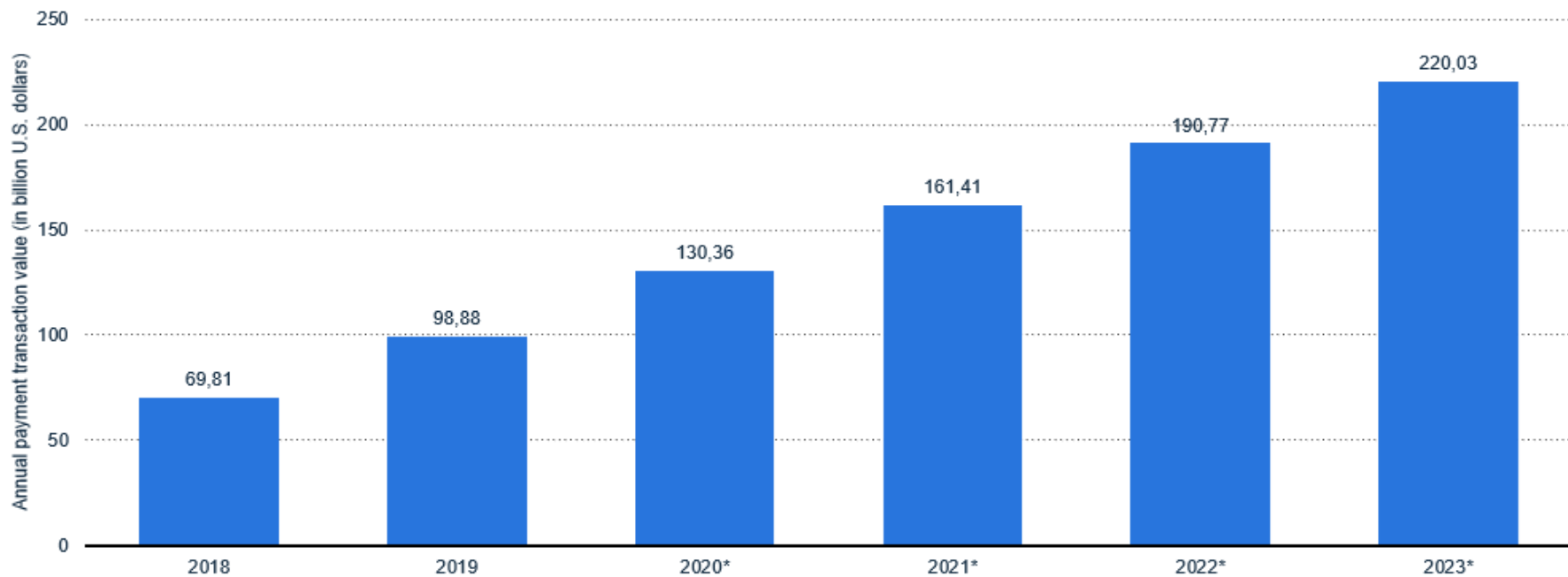


Analysis of the market



Proximity mobile payment transaction value in the United States in 2018 and 2019, with forecasts from 2020 to 2023 (in billion U.S. dollars)

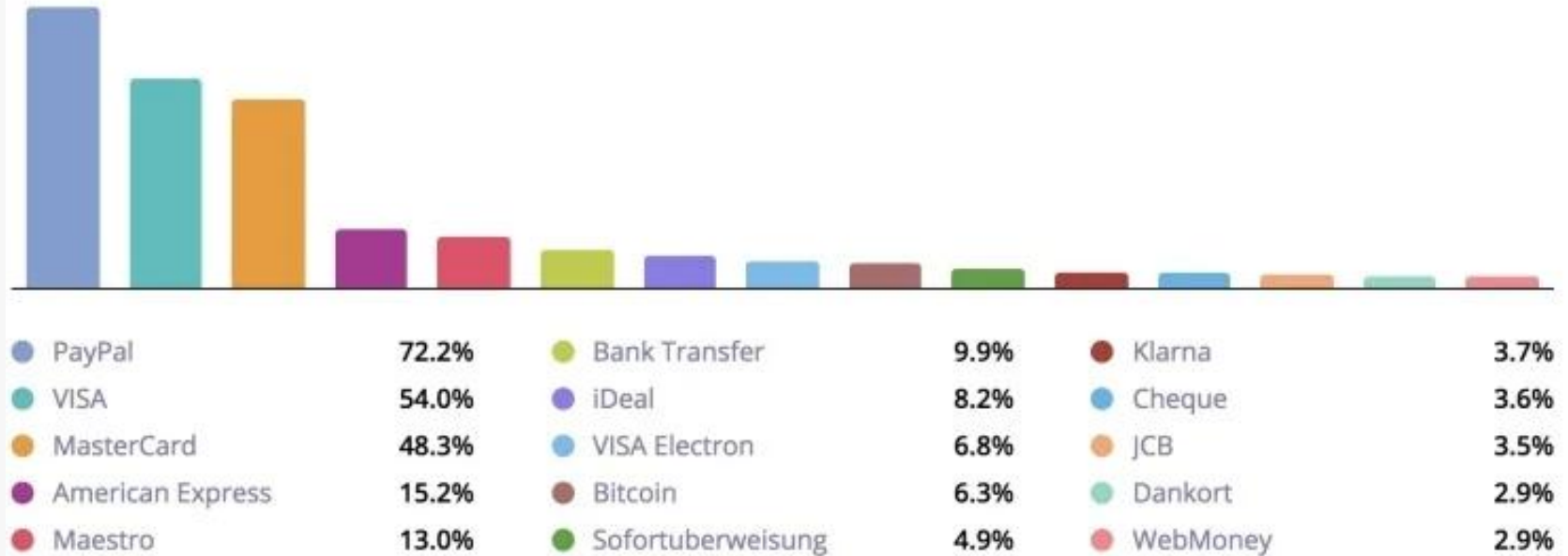
U.S. proximity mobile payment transaction value 2018-2019, with forecasts to 2023



Analysis of the market



Payment methods

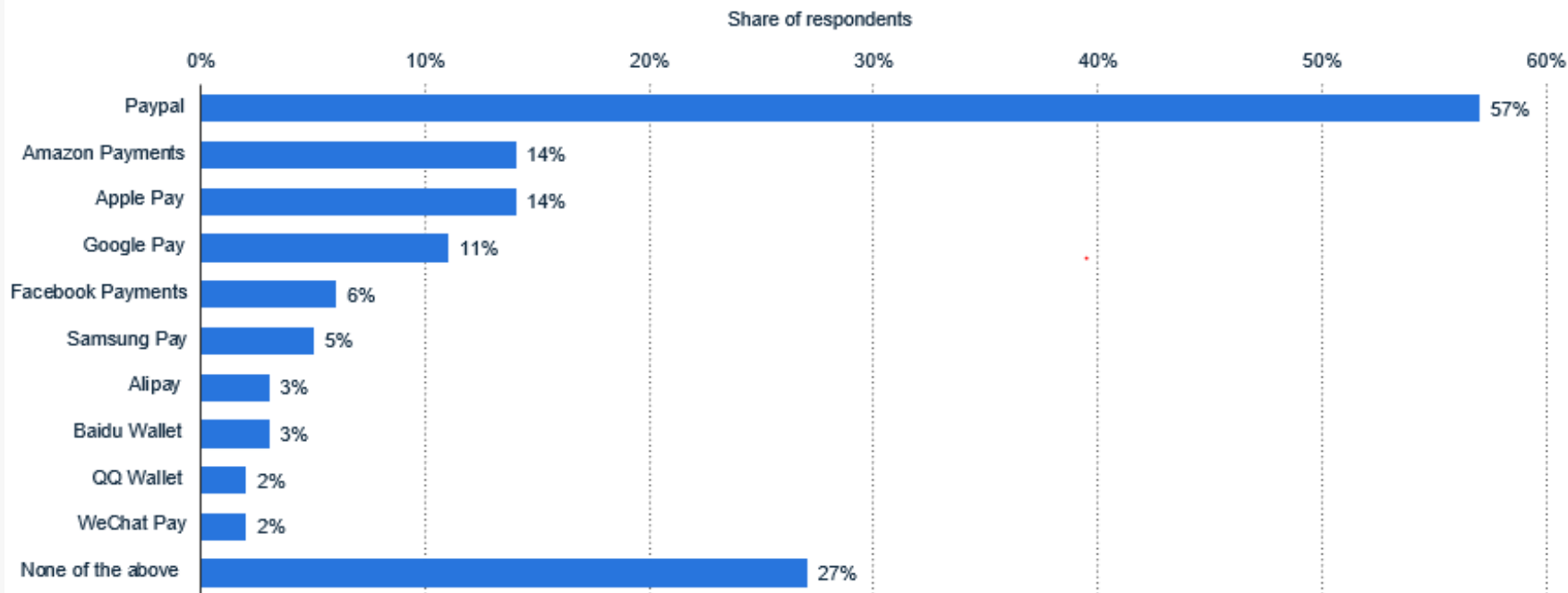


Analysis of the market



Do you use any of these services to handle payments and/or finances?

Popular digital payment and finance service brands in the U.S. 2018

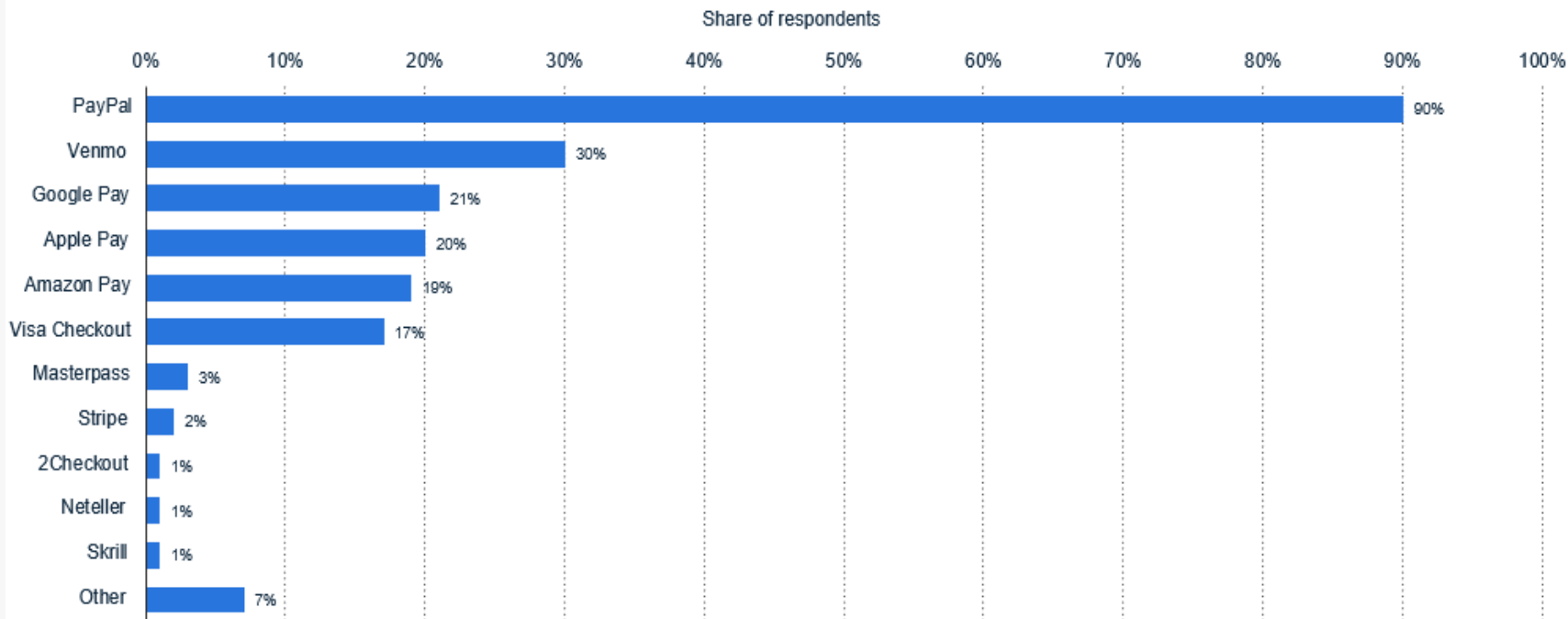


Analysis of the market



Which online payment services have you used in the past 12 months?

Online payments by brand in the U.S. 2020





Them

- Peer to peer network (Venmo)
- Provides e-merchants with tools to detect risky profiles (Venmo)
- Productivity gain (Adyen)

Us

- Better rate conversion from shopping basket to final purchase
- One third of employees are in charge of platform security and fraud detection
- Using 450 million gigabytes of data to reduce transaction declinex

A low-angle, black and white photograph of a modern building's glass facade. The image is framed by a white border. The text "The eye of the experts" is centered in the upper half of the frame.

**The eye of the
experts**



04 News

News



Jan 11th, 2021

\$242 billion in Bitcoin assets are traded on the PayPal platform

Jan 8th, 2021

PayPal invests in TaxBit, a company specialized in cryptocurrency fiscalty

Jan 6th, 2021

Acquisition of Honey Science Corp. for US\$4 billion

Dec 31st, 2020

PayPal becomes the first foreign company to own 100% of a payment platform in China

Dec 2020

PayPal suffers from a rising number of scams attempts against its users

Nov 14th, 2020

PayPal adds cryptocurrency features

Earnings



July 30th, 2020



2nd Quarter

Feb 3rd, 2021



4th Quarter

1st Quarter



May 6th, 2020

3rd Quarter



Dec 17th, 2020



05 Fundamental
Analysis

Income Statement



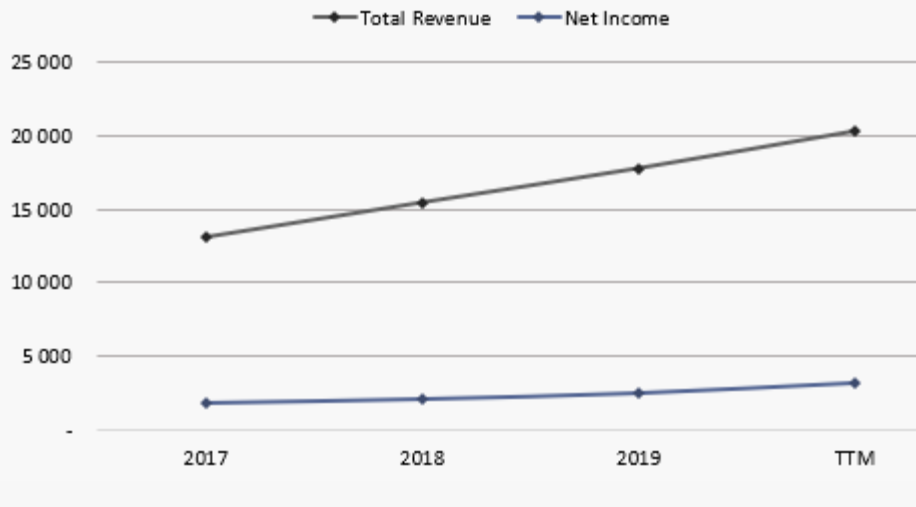
	2017	2018	2019	TTM	Average Growth
Revenue	13094	15451	17 772	20 299	
Other revenue	0	0	0		
Total Revenue	13 094,00 100%	15 451,00 100%	17 772,00 100%	20 299,00 100%	
<i>Revenue Growth</i>	/	18%	15%	14%	16%
Cost of sales (COGS)	6 695 51%	8 262 53%	9 785 55%	10 982 54%	
Gross Profit	6 399,00 49%	7 189,00 47%	7 987,00 45%	9 317,00 46%	
SG&A	2 370 18%	2 855 18%	3 112 18%	3 629 18%	
R&D	1 740 13%	1 831 12%	2 085 12%	2 468 12%	
D&A	0 0%	0 0%	0 0%	0 0%	
Other operating expense/(income)	92 1%	284 2%	0 0%	7 0%	
Total OPEX	4 202,00 32%	4 970,00 32%	5 197,00 29%	6 104,00 30%	
Operating Income	2 197,00 17%	2 219,00 14%	2 790,00 16%	3 213,00 16%	
Interest income	85 1%	168 1%	197 1%	125 1%	
Interest expenses	7 0%	77 0%	115 1%	187 1%	
Other non-operating income/(loss)	-75 -1%	66 0%	126 1%	909 4%	
Pretax Income	2 200,00 17%	2 376,00 15%	2 998,00 17%	4 060,00 20%	
Income tax expense	405 3%	319 2%	539 3%	918 5%	
Profit from continuing operations	1 795,00 14%	2 057,00 13%	2 459,00 14%	3 142,00 15%	
Earnings of discontinued operations	0 0%	0 0%	0 0%	0 0%	
Net Income to Company	1 795,00 14%	2 057,00 13%	2 459,00 14%	3 142,00 15%	
Minority interest	0 0%	0 0%	0 0%	0 0%	
Net Income	1 795,00 14%	2 057,00 13%	2 459,00 14%	3 142,00 15%	
<i>Net Income Growth</i>	/	15%	20%	28%	21%

In million \$

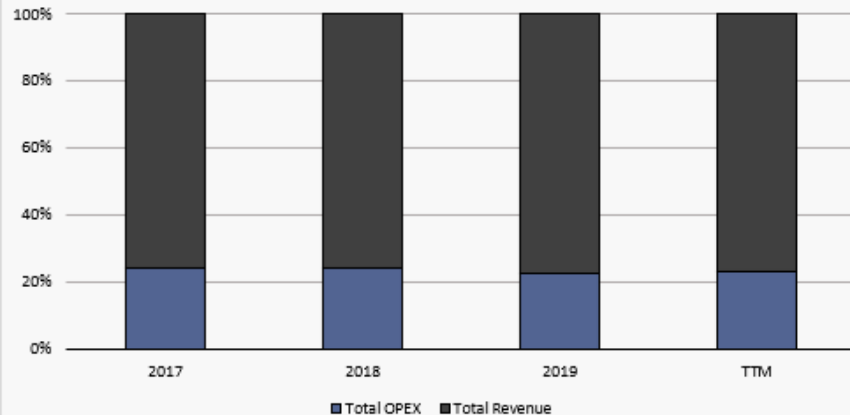
Income Statement



Revenue & Net Income Growth



Proportion of OPEX in Total Revenue



Balance Sheet



	2017		2018		2019		TTM	
-Current Assets	32 645,00	80%	32 963,00	76%	38 495,00	75%	48 704,00	74%
Cash & cash equivalent:	2 883,00	7%	7 575,00	17%	7 349,00	14%	6 112,00	9%
Short term investments	2 812,00	7%	1 534,00	4%	3 412,00	7%	8 046,00	12%
Accounts receivable	283,00	1%	313,00	1%	435,00	1%	482,00	1%
Other receivable	1 314,00	3%	2 532,00	6%	3 972,00	8%	2 628,00	4%
Inventory	-	0%	-	0%	-	0%	-	0%
Prepaid expenses	647,00	2%	638,00	1%	666,00	1%	785,00	1%
Other current assets	24 706,00	61%	20 371,00	47%	22 661,00	44%	30 651,00	47%
-Long Term Assets	8 129,00	20%	10 369,00	24%	12 838,00	25%	16 878,00	26%
PPE (Gross)	5 158,00	13%	5 907,00	14%	6 895,00	13%	2 412,00	4%
Depreciation	3 630,00	9%	4 183,00	10%	4 723,00	9%	-	0%
PPE (Net)	1 528,00	4%	1 724,00	4%	2 172,00	4%	2 412,00	4%
Goodwill	4 339,00	11%	6 284,00	15%	6 212,00	12%	9 119,00	14%
Other intangible assets	168,00	0%	825,00	2%	778,00	2%	1 146,00	2%
Investment property	1 961,00	5%	969,00	2%	2 863,00	6%	3 433,00	5%
Financial assets		0%		0%		0%		0%
Other long term assets	133,00	0%	567,00	1%	813,00	2%	768,00	1%
Total Assets	40 774,00		43 332,00		51 333,00		65 582,00	

In Million \$

Balance Sheet



Liabilities and Equity

	2017		2018		2019		TTM	
-Current Liabilities	22 863,00	56%	25 904,00	60%	26 919,00	52%	35 246,00	54%
Accounts payable	257,00	1%	281,00	1%	232,00	0%	159,00	0%
Short term debt	1 000,00	2%	1 998,00	5%	-	0%	-	0%
Cur. portion of LT debt	-	0%	-	0%	104,00	0%	133,00	0%
Other current liabilities	21 606,00	53%	23 625,00	55%	26 583,00	52%	34 954,00	53%
-Long Term Liabilities	1 917,00	5%	2 042,00	5%	7 485,00	15%	11 809,00	18%
Long term provisions	-	0%	-	0%	-	0%	-	0%
Long term debt	-	0%	-	0%	5 368,00	10%	9 531,00	15%
Other LT liabilities	1 917,00	5%	2 042,00	5%	2 117,00	4%	2 278,00	3%
Total Liabilities	24 780,00	61%	27 946,00	64%	34 404,00	67%	47 055,00	72%
-Shareholders' Equity	15 994,00	39%	15 386,00	36%	16 929,00	33%	18 527,00	28%
Common stock	-	0%	-	0%	-	0%	-	0%
Preferred stock		0%		0%		0%		0%
Add. paid-in capital	14 314,00	35%	14 939,00	34%	15 588,00	30%	16 248,00	25%
Treasury stock	(2 001,00)	-5%	(5 511,00)	-13%	(6 872,00)	-13%	(8 242,00)	-13%
Retained earnings	3 823,00	9%	5 880,00	14%	8 342,00	16%	10 809,00	16%
Other	(142,00)	0%	78,00	0%	(129,00)	0%	(288,00)	0%
Total Liab. & Equity	40 774,00		43 332,00		51 333,00		65 582,00	

Cash Flow Statement



	2017	2018	2019	TTM
Net Income	1 795,00	2 057,00	2 459,00	3 142,00
D&A	387	365	403	423
Amort of Goodwil & Intangibles	126	149	211	394
Stock based compensation	733	853	1 021	1 284
Other Operating Activities	71	1 437	1 052	881
Change in acc. Receivable	12	-59	-120	-10
Change in Inventories	0	0	0	0
Change in acc. Payable	62	26	4	-38
Change in Unearned Revenue	19	-44	-40	-122
Change in other Net Op. Assets	-674	699	-429	-83
Cash From Operations	2 531,00	5 483,00	4 561,00	5 871,00
CAPEX	-667	-823	-704	-814
Cash Acquisitions	-323	-2 124	-70	-3 679
Divestitures	0	0	0	0
Invest. In Securities	-970	-483	-3 003	-9 185
Net Decrease (Incr.) in loans	-920	3 121	-1 631	3
Other Investing Activities	-1 605	1 149	-325	10
Cash From Investing	(4 485,00)	840,00	(5 733,00)	(13 665,00)

In Million \$

Cash Flow Statement



	2017	2018	2019	TTM
ST Debt Issued	0	0	0	0
LT Debt Issued	1 800	2 075	5 471	6 966
ST Debt Repaid	0	0	0	0
LT Debt Repaid	-980	-1 115	-2 516	-3007
Issuance of Com. Stock	144	144	138	132
Repurchase of Com. Stock	-1 172	-3 939	-1 915	-2 169
Com. Dividends Paid	0	0	0	0
Special Dividend Paid	0	0	0	0
Other Financing Activities	4 292	1 573	2 510	7 941
Cash From Financing	4 084,00	(1 262,00)	3 688,00	9 863,00
Net Change in Cash	2 130,00	5 061,00	2 516,00	2 069,00
Free Cash Flow	1 864,00	4 660,00	3 857,00	5 057,00

Ratios



EBITDA	2 584	2 584	3 193	3 636
EBITDA in % of Rev.	19,73%	16,72%	17,97%	17,91%

EBIT	2 197	2 219	2 790	3 213
EBIT in % of Rev.	16,78%	14,36%	15,70%	15,83%

In Million \$

Margin Ratios	TTM	4YA
Gross profit margin	45,90%	46,56%
Operating profit margin	15,83%	15,67%
Net profit margin	15,48%	14,08%

Profitability Ratios	TTM	Industry	VISA
ROA	5,37%	4,59%	11,50%
ROCE	10,59%	15,51%	36,00%
ROE	17,72%	15,22%	30,70%

Ratios



Liquidity Ratios	2017	2018	2019	TTM	Trend	VISA
Current ratio	1,43	1,27	1,43	1,38		1,91
Quick ratio	0,26	0,36	0,42	0,42		1,6
Cash ratio	0,25	0,35	0,40	0,40		0,7
Solvency Ratios	2017	2018	2019	TTM	Trend	VISA
LT Debt to Equity	0%	0%	32%	51%		60%
Debt to Equity	6%	13%	32%	52%		68,00%
Debt to Capital	6%	11%	24%	34%		40,50%
Debt to Assets	2%	5%	11%	15%		55,30%
Debt to EBITDA	39%	77%	171%	266%		31%
Working Capital	5 087	-52	919	-567		
WC Turnover	2,57	-297,13	19,34	-35,80		

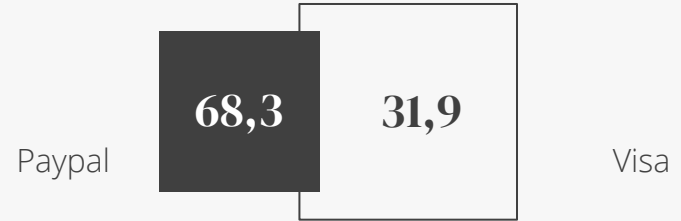
Enterprise valuation



Market cap (in B)



EV/EBITDA



P/E ratio





06

Chart
Analysis

Chart analysis



Chart analysis



Chart analysis



Chart analysis





07 Consensus
Analysis

Consensus analysis



Showing 48 of 52 sources

	Firm	Analyst	Recommendation	Tgt Px	Date	1 Yr Rtn	BARR	Rank
1)	Piper Sandler & Co	Christopher R Dona...	overweight	255	01/24/21			
2)	M Science LLC	Steve Weinstein	no rating system		01/22/21			
3)	Evercore ISI	David M Togut	outperform	312	01/22/21	115.42%	3	20
4)	Mizuho Securities	Dan Dolev	buy	350	01/20/21			
5)	BTIG LLC	Mark Palmer	↑ buy	300	01/20/21	46.78%	4	6
6)	Wedbush	Moshe Katri	outperform	250	01/15/21	115.42%	3	7
7)	Macquarie	Paul Golding	outperform	262	01/15/21	190.72%	1	8
8)	Compass Point Res...	Michael Del Grosso	buy	220	01/15/21	115.42%	3	
9)	MoffettNathanson	Lisa D Ellis	buy	300	01/15/21	115.42%	3	3
10)	Zacks Investment ...	Team Coverage	neutral	257	01/14/21	1.03%		
11)	Seaport Global Sec...	Christopher C Bren...	neutral		01/14/21			
12)	Jefferies	John Hecht	buy	280	01/13/21	115.42%	3	



08 Risks & Opportunities



Opportunities

- Very impressive results for 2020, due partly to the Covid situation
- A very opportune time to buy the stock
- Ambitious and recent growth initiatives

Risks

- Exposure to Hacking and Online Identity Theft
- Potential regulatory changes in the EU
- Low-interest-rate environment



Current Price

\$230



Take profit

\$281
+22,6%



Stop Loss

\$213
-7,2%





Let's Discuss